



Informational Guideline Release

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MUNICIPAL SELF-INSURED HEALTH PLANS

Chapter 61 of the Acts of 2005 (Amending G.L. Ch. 32B §3A)

This Informational Guideline Release informs local officials about recent legislation requiring annual audits of municipal self-insured health plans and monitoring of outstanding claims that have not been paid at the end of the fiscal year.

Topical Index Key:

Audits
Budgets

Distribution:

Mayors/Selectmen
City/Town Managers, Exec. Secys.
Finance Directors
Accountants/Auditors
Municipal/Regional School Treasurers
City Solicitors/Town Counsels

MUNICIPAL SELF-INSURED HEALTH PLANS

**Chapter 61 of the Acts of 2005
(Amending G.L. Ch. 32B §3A)**

SUMMARY:

These guidelines explain recent legislation intended to address deficits that have occurred in some municipalities with self-insured health plans due to their failure to accurately account or budget for all incurred obligations and claims.

Under this legislation, every city, town, county or other political subdivision that elects to self-insure its group health plan under G.L. Ch. 32B §3A will now have to conduct an annual audit of its health insurance claims fund. The purpose of the audit is to ensure that the fund accounting meets generally accepted accounting principles and all claims incurred but not reported ("IBNR") at the end of the fiscal year are properly accrued. Any year-end deficit must be funded in the succeeding year.

In addition, the legislation gives a political subdivision that has a deficit in its self-insurance health fund at the end of fiscal year 2005 because it has not been accruing these IBNR claims a one-time opportunity to amortize that deficit over a period not to exceed three years, beginning in fiscal year 2007.

GUIDELINES:

A. Annual Audits

Every city, town, county or other political subdivision that self-insures its group health plan under G.L. Ch. 32B §3A must have an annual audit of its self-insurance health fund. This audit may be conducted as part of the subdivision's annual audit, but is required even if the subdivision is not required to have an annual audit under the federal Single Audit Act.

In the unlikely event that a political subdivision not required to have an annual audit under the Single Audit Act is operating a self-insurance health fund, the selectmen, commissioners or other executive authority should contact the Director of Accounts, who will promulgate "agreed-upon procedures" for engagement of a certified public accountant to perform the required work.

B. Deficits

1. Fiscal Year 2005 Deficits - Recognition of IBNR

Any city, town, county or other political subdivision that ends fiscal year 2005 with a deficit in its self-insurance health fund that is attributable to IBNR claims may amortize the deficit over three years, beginning in fiscal year 2007. The option to amortize does not apply to self-insurance health funds in deficit at the end of fiscal year 2005 for other reasons, such as an insufficient appropriation.

Election of this option requires an audit of the fund as of June 30, 2005 to establish the amount attributable to IBNR claims and the schedule of amounts to be funded in fiscal years 2007, 2008 and 2009.

2. Other Deficits

Any other year-end deficit in a political subdivision's self-insurance health fund at the end of fiscal year 2005, or any year thereafter, must be funded in the next fiscal year.

Year-end deficits in a city or town self-insurance health fund must be raised in the tax rate for the succeeding year unless otherwise funded by appropriation. Deficits in the funds of other political subdivisions must be funded in their next fiscal year's budget.

3. Free Cash

If a city, town, regional school district or other district has capitalized a deficit in its self-insurance health fund as of June 30, 2005 and is amortizing it as explained in Section B-1 above, the unamortized deficit will not be deducted from fund balance in the computation of free cash for a city, town or district or excess and deficiency funds for a regional school district.